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The Depository Trust &
Clearing Corporation
55 Water Street
New York, NY 10041-0099

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-0609

Re: Amendment to Regulation SHO
File No. S7-12-06

Dear Ms. Morris:

National Securities Clearing Corporation (NSCC) appreciates the opportunity to comment on the Securities and Exchange Commission's (SEC) decision to review Regulation SHO (Reg SHO), recommend specific enhancement proposals and seek commentary from financial services industry participants and from the public at large as part of its process for strengthening this important tool in addressing short selling abuses.

NSCC and The Depository Trust Company (DTC), provides vital information to the Commission, the securities markets and their self-regulatory organizations (SROs) on fails to deliver (FTD). While the information we have cannot identify the underlying reasons for a FTD, NSCC provide to the SROs and to the SEC daily information about the aggregate level of FTDs on issues and the details of failing transactions. The SROs and the SEC use this information to identify companies to be placed on, or removed from, a "Threshold List" by virtue of their having an aggregate FTD position for five consecutive settlement days at a registered clearing agency, such as NSCC, totaling 10,000 shares or more that is equal to at least 0.5% of the issuer's total shares outstanding. The information NSCC provides enables the markets and their regulators to establish more stringent requirements on the trading of securities on the list as part of the process of controlling abusive trading practices.

The role of NSCC and DTC is to provide centralized clearance, settlement and information services for a substantial majority of the U.S. trades in equity and other types of securities. NSCC and DTC settled in excess of \$1.4 quadrillion dollars in securities transactions last year. Since neither DTC or NSCC establishes, monitors or regulates front-end trading practices -- including short selling or naked short selling -- we intend to confine our comments to questions posed on [pages 16 and 17] of the SEC's request for comment document.¹

¹ SECURITIES AND EXCHANGE COMMISSION; 17 CFR PART 242; [Release No. 34-54154; File No. S7-12-06]; RIN 3235-AJ57; Amendments to Regulation SHO

Since the inception of DTC and NSCC, great attention has been paid to ensuring the confidentiality of information these subsidiaries possess about participants' specific securities holdings and securities trades. To preserve this confidentiality DTC's and NSCC's ability to release information is sharply restricted by their rules, and the users of these entities – both direct participants and institutional investors and others who participate indirectly – continue to emphasize their strong expectations regarding the privacy of this information.

Notwithstanding our commitment to the confidentiality of information regarding specific holdings or specific trading activities, we believe that it would be appropriate for the Commission to authorize greater disclosure of aggregated information on FTDs, as we believe it would clarify for investors a very complex topic. NSCC is confident that the same thoughtful process that is being used to examine proposed enhancements to Reg SHO can be applied to formulate a new, more open information dissemination policy relating to aggregated fail levels, with the interest in market operations properly balanced against the genuine need by broker/dealers and investors to safeguard private and potentially valuable information about their specific holdings of securities and specific trading intentions and strategies. The process for arriving at such a new policy should address the content and timing of information dissemination, and also should give due consideration to the costs of providing the information, which will have to be balanced against the benefit of having the information readily available in the public domain.

In its request for comment, the Commission asked respondents to address a number of specific questions regarding transparency. A fundamental issue of concern within the industry has been that disclosing current fails data on a stock would reveal position information that could be used to manipulate the market, and could initiate a short squeeze in the stock. Such an outcome would discourage legitimate short sellers from expressing their views in pricing of the security. NSCC does not claim expertise on trading strategies and will defer to our marketplaces and members to comment on how to best address this concern. Limiting disclosure to aggregated information, however (assuming the timing issue is properly addressed) – that is, not disclosing specific information about FTD positions by individual firm – may help alleviate some of these concerns.

NSCC believes it would be appropriate to have aggregate fail information generally available to the public within a reasonable period of time, to be determined by the Commission. The SEC currently releases information on fails in an individual security under FOIA requests that are two months old. NSCC believes that disclosing aggregated historical data in each security on a regular basis, especially if grandfathering of fails is ended, would demonstrate convincingly the relatively low level of fails that actually exist, and that such information would end much of the current speculation about the level of such fails.

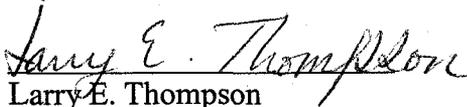
In closing, we have not elected in this comment letter to address the erroneous and/or misleading comments regarding DTCC that have appeared in several comment

letters submitted to the SEC regarding Reg SHO amendment. As our regulator, you are well versed in our rules and operating procedures and well aware of our commitment to the effective, efficient and accurate completion of the clearing and settlement process.

We remain committed to carrying out the timely and cost-effective clearing and settlement activities that have given U.S. markets a decided competitive advantage in an increasingly competitive world and to playing our part in protecting the safety and soundness of our capital markets. With regard to modifications to Reg SHO, NSCC is prepared to work with the SEC, appropriate market and SRO officials to respond to new Reg SHO information requirements in order to continue to support the monitoring and enforcement activities being carried out by the SEC, and by individual markets and the SROs.

Sincerely yours,

NATIONAL SECURITIES
CLEARING CORPORATION


Larry E. Thompson
General Counsel